



HOUSE BUDGET COMMITTEE

Democratic Caucus

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Bush Budget: Sacrificing All Else to Tax Cuts

The Big Picture

- ***The President's Tax Cuts Force Cuts in Priority Programs and Undermine the Future of Social Security and Medicare*** — The President's tax cut shoulders aside all other priorities. His budget undermines the future of both Social Security and Medicare by making their surpluses available for purposes other than paying existing benefits promised in current law. The President continues to call for cuts in priority programs including environmental protection, health care for the uninsured, scientific research, law enforcement, low-income housing, and rural development in order to pay for tax cuts, which disproportionately benefit the most privileged. This "budget" still lacks crucial specifics, like the President's plan to increase defense spending, that would show how all the numbers add up.
- ***The Senate Has Already Rejected the Priorities of the President's Budget*** — Just three days ago, the Senate voted 65 to 35 for a budget with a 25 percent smaller tax cut, more debt reduction, a Medicare prescription drug benefit more than double the President's proposal, and higher funding levels for education, farm assistance, environmental protection, law enforcement, small business, defense, and veterans' benefits.
- ***Even Taking the Bush Budget Numbers at Face Value, It Has No Room for Error*** — The President's budget seems premised on the idea that 10-year surplus projections can only improve. His own figures show that passage of his excessive tax cut will leave no room for error, even though economic growth just 0.1 percent less than forecast reduces the surplus over the next ten years by about \$200 billion. Surpluses smaller than those built into the Bush budget would force the government to deplete the Medicare and Social Security surpluses.
- ***The President's Tax Cut Still Mainly Benefits the Most Fortunate While Many Working Families Receive Nothing*** — The President continues to advocate a package of tax cuts that would award almost half of the benefits to the top one percent of the income distribution. Families who pay substantial payroll taxes but no income tax would receive no tax relief from the Bush tax cut.

- ***Democrats Favor a Balanced Approach*** — Democrats favor a realistic and balanced budget framework that provides for all of America's priorities: a sizeable and fair tax cut, extending Social Security and Medicare solvency, paying off the public debt, and essential investments in education, a Medicare prescription drug benefit, the environment, public safety, and military modernization.

Undercutting Social Security and Medicare

- ***The Bush Tax Cut Is So Large That It Requires Tapping the Medicare Surplus and Jeopardizes the Social Security Surplus as Well*** — The Bush budget explicitly calls for using \$153 billion of the Medicare surplus to pay for a new prescription drug benefit and unspecified Medicare "reforms," even though Medicare already needs these funds to pay the benefits promised in current law. Furthermore, this \$153 billion is inadequate for a Medicare prescription drug benefit, much less program-wide reform. Finally, any realistic accounting of the costs of all the Bush spending and tax cut promises creates shortfalls so large that they would wipe out the entire Medicare surplus and risk the Social Security surplus as well.
- ***Using the Medicare and Social Security Surpluses for Other Purposes Shortens the Solvency of the Trust Funds*** — The diversion over ten years of \$153 billion from the Medicare trust fund and of about \$600 billion from the Social Security trust fund jeopardizes the solvency of the trust funds, which are dedicated to paying benefits promised in current law.
- ***The Bush Prescription Drug Benefit Is Woefully Inadequate*** — The budget includes only a temporary, four-year prescription drug benefit funded outside of the Medicare program. The so-called "immediate helping hand" initiative gives states a limited block grant, \$11 billion in 2002, to provide financial assistance to fewer than half of today's seniors. About 25 million seniors, most of whom do not have access to affordable drug coverage, are denied coverage under the plan.
- ***The Budget Provides Minuscule Funding for Unspecified Medicare "Reform"*** — In 2002-2004, the budget includes only those increases in Medicare spending that are projected under current law. (The funding for the token drug plan is not included in the Medicare spending total.) In later years (2005-2011), the budget increases Medicare spending by \$110 billion relative to current law to fund undefined changes in the structure of Medicare, as well as the drug benefit. Because the Republican budget devotes so few resources to strengthening Medicare, there is concern that the Administration's "reforms" will increase beneficiary costs, cut benefits, limit access to health care services, or cut provider payments.
- ***Congressional Republicans Reject Budget's Medicare Prescription Drug Numbers*** — Last year, House Republicans put forth a plan solely for prescription drugs that carried a ten-year price tag of \$159 billion. Since then, projected price increases for

prescription drug coverage has increased. Last year's plan, which relied on an unstable and unreliable Medigap market to provide drug coverage to seniors, was deemed unworkable by the insurance industry itself.

This year, a top House Republican, Rep. Billy Tauzin, Chairman of the House Energy and Commerce Committee, said, "Everybody knows that figure [\$153 billion] is gone." It was set before CBO re-estimated last year's House bill, which he said is "already over \$200 billion and climbing." (Congress Daily, page 3, 3/22/01) At this point, there are few who believe that a credible drug plan, let alone a drug plan combined with Medicare reform, can be developed with so few resources. On April 6, the Senate rejected that number and adopted a budget resolution that more than doubled the funding available for Medicare prescription drugs.

The Bush Tax Cut

- ***The President Continues to Understate the True Cost of His Tax Cut*** — The President continues to use "fuzzy math" to claim that his tax cut consumes only one quarter of the surplus. Even taking his understated estimate of \$1.6 trillion at face value, the tax cut by itself consumes 29 percent of the unified surplus, or 35 percent after accounting for the associated debt service. However, \$1.6 trillion tax cut consumes 60 percent of the surplus available after Social Security and Medicare have been protected, and 75 percent of the available surplus once debt service costs are added. Unfortunately, that's just the beginning. When the House passed the two largest components of the President's tax package, H.R. 3 and H.R. 6, the Joint Committee on Taxation (JCT) scored them \$241 billion higher than he had claimed and proposed. The third major component of the package, H.R. 8, postponed until 2011 the estate tax repeal the President has promised so as to mask its true cost by pushing it outside the 10-year budgeting window.
- ***The Tax Cut Still Overwhelmingly Favors the Most Fortunate*** — The President continues to act as if the only tax that people pay is the income tax, and he therefore claims that "anyone" who pays taxes gets relief. In fact, three-fourths of families pay more payroll taxes than income taxes, and the President's tax package does nothing to offset the burden of payroll taxes. Meanwhile, the top one percent, with incomes averaging more than \$900,000 per year, get 45 percent of the Bush tax cut with an average cut of \$54,000.
- ***Low-Income Working Families Get Little, If Any, Tax Cut*** — The President claims that his tax cut is fair because the percentage tax reductions in his plan are largest for those at the bottom. However, that amounts to saying that a restaurant worker whose \$200 income tax liability is eliminated gets a larger benefit than a lawyer whose \$20,000 tax liability is cut in half. Furthermore, the claim that the "average" family gets a \$1,600 tax cut is misleading. More than 80 percent of families would receive tax cuts of less than that amount. Many working families would receive nothing.

- ***This Is Economic Stimulus?*** — Like the February Blueprint, the President's budget contains essentially no economic stimulus, despite the Administration's argument that the slowing economy makes such stimulus urgent. The budget shows a tax cut of only \$172 million in 2001, a mere 0.002 percent of GDP. The Senate, by a bipartisan majority, added an \$85 billion stimulus to 2001.

Harmful Program Cuts

- ***Non-Defense Appropriations Cut for 2002*** — The President's budget cuts overall funding for domestic appropriations by \$6.8 billion below the level needed, according to CBO, to maintain purchasing power at the 2001 level. The budget provides modest increases for selected non-defense budget functions, such as Education, Health, and International Affairs, and maintains purchasing power for Veterans. As a result, the remaining "unprotected" non-defense programs, such as Science and Space, Environment, Energy, Transportation and Law Enforcement must be cut an average of 6.2 percent to offset the selected increases.
- ***Non-Defense Appropriations Cut Over 10 Years*** — The President's budget continues to cut non-defense appropriations after 2002. In fact, some functions that the budget spares in 2002, such as Veterans, are cut in future years. By 2011, except for a few selected areas which are increased modestly (primarily Education, Health, and International Affairs), the remaining non-defense programs are cut an average of 8.2 percent below the level needed to maintain purchasing power at the 2001 level.
- ***Defense Budget Is Still Unknown*** — The President's budget does not represent an intended policy but rather is only a "placeholder" pending a policy review. The budget states: "The Administration will determine final 2002 and outyear funding levels only when the review is complete." Most defense analysts expect that the defense review will conclude that substantially more funding is required for defense than the placeholder budget assumes. The Senate has already added \$9.9 billion to the President's placeholder budget for 2002 alone. Defense currently represents about one-sixth of all federal spending. Asserting that the tax cut is affordable, or that the budget's numbers add up without knowing the defense budget, strains credulity.
- ! ***Medicaid Cuts*** — Like the February Blueprint, the 2002 April budget cuts Medicaid spending by \$606 million in 2002 relative to current law. Over ten year years (2002-2011), Medicaid spending is \$17.4 billion lower than it would be otherwise. The budget includes additional constraints on the upper payment limit (UPL). Last year, Congress already tightened these payments to prevent states from increasing their federal Medicaid payments without increasing health services. The budget resolution adopted by the House explicitly rejected the Medicaid UPL cut.
- ***The Budget Cuts Health Professions Training Grants by 60 Percent*** — For 2002, the April budget includes \$140 million for health professions training grants. This is a cut

of \$213 million (60 percent) from the 2001 level. These grants provide individual support for those seeking to enter the health care workforce.

- ***The Budget Cuts Children's Hospital Graduate Medical Education (GME) by 15 Percent*** — The 2002 April budget cuts 2002 funding for teaching and training pediatricians in children's hospitals. For 2002, the budget provides \$200 million, a cut of \$25 million (15 percent) from the 2001 level.
- ***The Budget Freezes Ryan White AIDS Treatment Grants*** — Instead of providing sufficient funds to keep pace with inflation, the April budget freezes these grants at the 2001 level of \$1.8 billion. With the advent of protease inhibitors, which provide successful treatment for many persons living with AIDS but are enormously expensive, the demand for prescription drug assistance continues to grow. Most states cannot and do not supplement the Ryan White AIDS grants, especially the drug assistance grants.
- ***The Budget Eliminates the Community Access Program (CAP) for the Uninsured*** — The April budget eliminates the CAP program entirely. The program allows health care providers such as community health centers and public hospitals that serve those who are under- or un-insured to coordinate and integrate access to health care services for them.
- ***The Budget Freezes National Health Service Corps (NHSC)*** — For 2002, the April budget includes \$126 million, essentially freezing the NHSC at the 2001 level. Through its scholarship and loan programs, the NHSC places physicians in medically under-served areas that often have a high rate of uninsured persons. NHSC physicians are often the mainstay of the health care workforce for those institutions, such as community health centers and disproportionate share and public hospitals, that serve the under or uninsured.
- ***The Budget Cuts Environmental Programs*** - For 2002, the President's budget significantly cuts funding for many programs that protect public health and the environment. The April budget provides \$26.4 billion in appropriations for these programs. With an adjustment for one-time emergency funding in 2001, the President's environmental budget is \$1.6 billion (5.7 percent) below a freeze at the 2001 level and \$2.6 billion (8.8 percent) below the level needed to maintain current purchasing power. The President's budget continues to cut the purchasing power of these programs over the ten-year period. After the adjustment for emergencies, the average annual cut in purchasing power is over 13 percent. Agencies slated for cuts for 2002 include the Department of Interior (\$400 million), the Environmental Protection Agency (\$500 million), and the Army Corps of Engineers (\$600 million).
- ***The Budget Cuts Cleanup of Nuclear Waste*** — The President's budget for 2002 cuts the efforts to clean up nuclear and other hazardous waste at the former nuclear weapons production sites of the Department of Energy by \$458 million (7.4 percent) compared with the level needed to maintain purchasing power at the 2001 level.

- ***The Budget Cuts Federal Emergency Management Agency (FEMA)*** — The budget cuts funding for FEMA's disaster relief program \$258 million (16 percent) below the level needed to maintain current services.
- ***The Budget Cuts Money for Scientific Research*** — The President's budget provides only \$21.2 billion in 2002 budget authority for appropriations for the National Science Foundation, NASA, and science programs at the Department of Energy. This is more than \$200 million less than the amount needed to maintain constant purchasing power at the 2001 level, and violates a bipartisan consensus on the need to increase funding for scientific research. The budget resolution passed by the Senate increased funding in this area by \$1.4 billion over the President's request for 2002.
- ***The Budget Cuts Housing Assistance*** — For 2002, the Administration cuts over \$1 billion from low-income housing assistance programs. The Administration touts two major new housing grant proposals for 2002: 33,700 new Section 8 housing assistance vouchers and a \$200 million home ownership Down Payment Assistance Initiative. The proposed voucher program, however, offers fewer than half the number of vouchers provided in 2001, and the Administration pays for the Down Payment Initiative as a set-aside from the successful HOME program. The Administration also threatens the safety and security of the 1.3 million families—over 40 percent of whom are elderly or disabled—living in public housing by cutting public housing capital building repair funds by \$700 million (23 percent) compared with 2001, and eliminating the \$316 million Public Housing Drug Elimination Program. The budget also eliminates the \$25 million Rural Housing and Economic Development Fund, and cuts 2002 Homeless Assistance Grants by \$25 million compared to the amount needed to maintain constant purchasing power.
- ***The Budget Cuts Community Development Block Grant (CDBG)*** — The budget cuts funding for CDBG, which provides funds for development for low- and moderate-income communities, \$516 million (10 percent) below the level needed to maintain current services.
- ***The Budget Cuts Economic Development Assistance Administration (EDA)*** — The budget cuts funding for EDA, which provide grants to alleviate unemployment and underemployment in distressed communities, \$86 million (20 percent) below the level needed to maintain current services.
- ***The Budget Cuts Community Development Financial Institutes (CDFI) Fund*** — The budget cuts appropriations to the CDFI Fund, which helps finance economic development in distressed communities, \$52 million (43 percent) below the level needed to maintain current services.
- ***The Budget Slashes Programs for America's Workforce*** — The President's budget reduces appropriated funding for training and employment services in the Department of Labor by \$541 million (9.5 percent) from the 2001 freeze level. This represents a cut of 10.7 percent below the amount needed to maintain constant purchasing power.

- ***The Bush Budget Ignores the Realities of the Current Farm Economy*** — Even though the Senate provided an additional \$59 billion over ten years for agriculture and bipartisan coalitions of farm groups have asked for over \$100 billion in additional money, the Bush budget provides absolutely nothing. While squeezing the delivery system and cutting agricultural research dollars, the Bush budget states, “It appears that commodity prices are improving, [and] net cash income is projected to be over 90 percent of the average income in the 1990s.” Prices may be inching up from Depression-era lows, but they are not rising fast enough for farmers to make a living this year without additional assistance. Net cash income has risen only because of steady support structures and, in many cases, because farm families have taken second jobs off the farm to supplement household income.
- ***The Budget Cuts Funds to Prevent Nuclear Proliferation*** —The President’s budget for 2002 cuts the Department of Energy’s nuclear non-proliferation programs by \$117 million (13 percent) compared with the level needed to maintain purchasing power at the 2001 level
- ***The Budget Cuts Funds for Export-Import Bank*** — The President’s budget for 2002 cuts the Ex-Im Bank’s credit subsidy funding by 25 percent, a cut of approximately \$220 million from the level needed to maintain the Ex-Im Bank’s activities at the 2001 level. This budget could reduce 2002 U.S. exports by up to \$4 billion.
- ***The Budget Cuts COPS*** — President Bush’s April budget cuts appropriations for state and local justice assistance for law enforcement by \$1.5 billion (8 percent) from the level needed to maintain purchasing power at the 2001 level. This includes a \$270 million (46 percent) reduction in grants to hire new police officers under the Community Oriented Policing Services (COPS) program, and a \$20 million cut for Office of Justice programs. Although the House budget resolution adopted these cuts, the Senate passed an amendment restoring the \$1.5 billion for 2002 needed to aid states and localities in law enforcement.
- ***The Budget Cuts Fairness*** — The Administration proposes reducing funding for the Equal Employment Opportunity Commission by \$9 million below the level needed to maintain current services, and for the Legal Services Corporation by \$10 million below the level needed to maintain current services.
- ***The Budget Cuts Support for Low-Income Families*** — While the budget nominally increases funding for the Child Care and Development Block Grant (CCDBG) by \$200 million, it carves out \$400 million of the new total (\$2.2 billion) for an after-school voucher initiative. This new set-aside reduces funding available to states through the current, flexible CCDBG program by \$200 million compared to 2001. In addition, the Administration cuts federal Temporary Assistance for Needy Families (TANF) grants, an increasingly important source of state child care funds for low-income families. The budget reduces the amount of funding available for low-income child care in 2002 by allowing \$319 million in TANF Supplemental Grants to expire and permitting states to divert remaining funds to offset revenue losses incurred from state income tax credits for charitable deductions.

- ***The Budget Cuts Rural Electrification and Telephone Service*** — The President proposes cutting the rural telephone bank, used to stimulate development in rural areas, by \$40 million in 2002 and by \$500 million over ten years.
- ***Education Funding Fails to Keep Pace*** — The President's 2002 budget for the Department of Education adds only \$2.5 billion (5.8 percent) for appropriated programs over a freeze at the 2001 level. This modest increase is less than half of the size of the 13 percent average increase that Congress has provided over the last five years. The Bush education budget has been rejected as inadequate by a bipartisan majority of Senators, which voted to increase education funding by over \$300 billion above the President's request for the next 10 years. The President's education budget eliminates all \$1.2 billion of funding for school renovation grants. It allows for an increase of only \$100 in the size of the maximum Pell Grant award, significantly less than promised by the President during his campaign.